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ABSTRACT

A supplement to a slide presentation on financial responsibilities of governing boards, suitable for use at a trustee workshop, is presented. A flow of funds model which depicts the five major financial zones (acquisition, allocation, current fund, plant fund, and endowment and similar funds) is the visual devise used through the presentation. Questions are posed to suggest ways in which financial reporting systems can be strengthened to provide board with the information they need at key points within the institutional flow of funds. Suggested uses for the slide show are discussed, with attention to the audience and the setting (committee meetings, trustee workshop or retreat, and regular meeting of the board as a whole). Equipment and related considerations are also addressed. Finally, the script of the presentation is provided. (SW)

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User's Manual

Understanding the Process: Financial Responsibilities of Governing Boards

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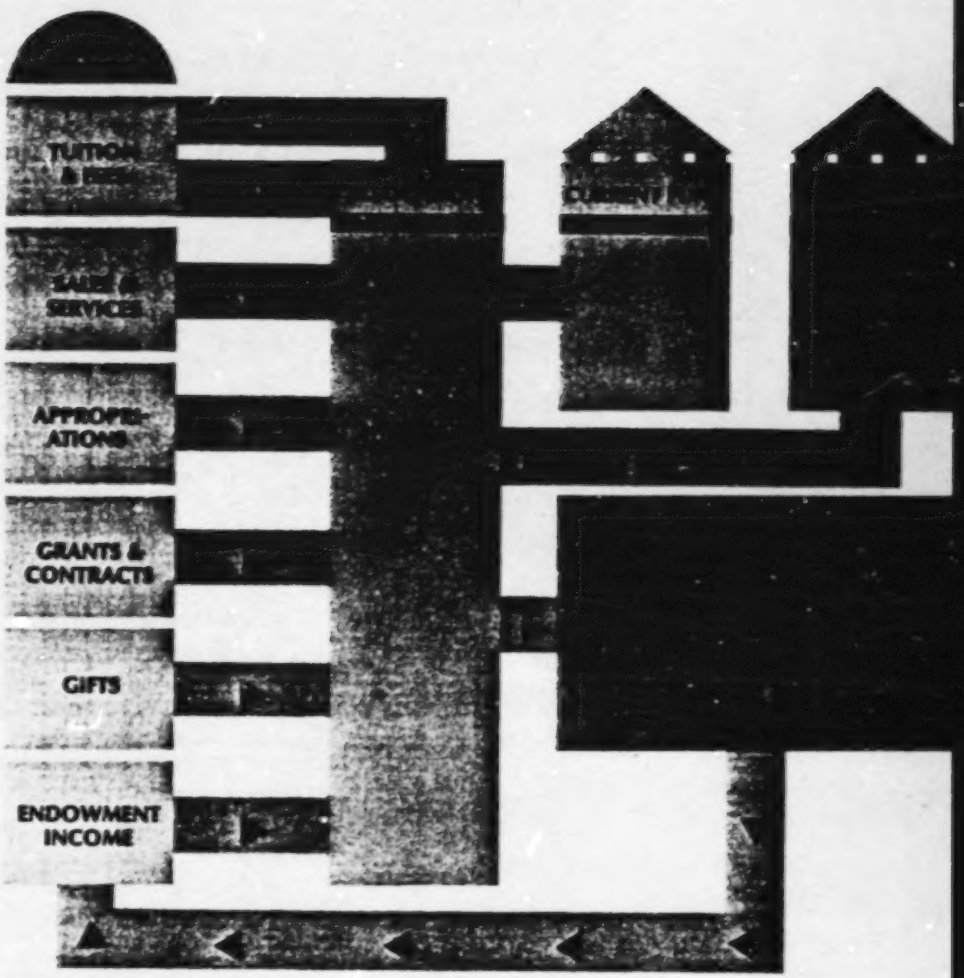
Purpose

"Understanding the Process: Financial Responsibilities of Governing Boards" is a byproduct of the monograph entitled *Financial Responsibilities of Governing Boards*, jointly published by the Association of Governing Boards of Universities and Colleges and the National Association of College and University Business Officers. The entire project was supported by a grant from the W. K. Kellogg Foundation. As the source of several concepts and charts in the slide presentation, this publication should be used to complement the slide presentation (see section on "additional resources").

A flow of funds model which depicts the five major financial zones (acquisition, allocation, current fund, plant fund, and endowment and similar funds) is the visual device used throughout the presentation to portray the nature of the flow of funds within an institution. The questions posed throughout the show are designed to suggest ways in which financial reporting systems can be strengthened to provide boards with the information they need at key points within the institutional flow of funds.

Although this presentation has been prepared for all types of institutions, it does not attempt to take into account the limitations which may be imposed on a public institution's financial system by its state or local funding sources.



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Suggested Uses

The slide show may be presented in a variety of ways to serve the board. In order for the presentation to be used effectively as a training device, the user should determine in advance the audience, the setting, and the ways in which additional resources can be used to supplement the slide show.

The following suggestions are offered to help the board member or administrator who coordinates the viewing to tailor the presentation to the organization and the information needs of his or her own governing board.

Knowing Your Audience

Potential viewers might include members of the finance or budget committees, new trustees, or board members who do not have financial expertise. Regardless of the nature of the audience, it is important to set the stage by offering a proper introduction. Viewers should be reminded that the purpose of the slide show is to describe the flow of institutional funds as well as to help board members understand their own financial responsibilities.

In addition to formally inviting board members to view the slide show, key members of the administration and/or the board should review the presentation's script (included in this user's manual) well in advance to allow sufficient time for the preparation of additional materials they deem helpful in anticipating questions from the audience.

Setting

The slide presentation might be scheduled for viewing in the following settings:

1. appropriate committee meetings
2. a trustee workshop or retreat
3. a regular meeting of the board as a whole
4. new trustee orientation

Committee Meetings

It is recommended that those boards which employ a committee system ask their finance or budget committees to view the slide show and then develop a program around this presentation for the entire board. Many finance committee members will find the slide show helpful in approaching their own responsibilities and in insuring that the board members who do not serve on this committee feel part of the financial decision-making process.

Trustee Workshop or Retreat

A trustee workshop or retreat program which addresses the board's financial responsibilities would be an excellent setting for this slide show. Such a workshop might include members of the board as well as key members of the administration. A sample agenda for such a workshop follows:

1:00-1:15 p.m.	Opening Remarks on Purpose of Workshop (by board chairperson, chief executive officer, and chief financial officer)
1:15-1:45	Presentation of slide show
1:45-2:00	Coffee Break
2:00-4:00	Discussion of quality of financial reporting system to board, utilizing questions in "Trustee Audit" at end of slide show

Trustee Audit

1) Does the board fully accept its responsibility for prudent fiscal management?
2) Is your board organized in such a way —i.e., finance committee, executive committee, etc.—that it can best meet the needs of the financial matters of the institution?

3) Are the institution's financial statements intelligible?
4) Are financial reports distributed in a timely fashion?
5) Does the institution's financial reporting system need evaluation?
6) If so, by whom?
7) Is the concept of "fund-accounting" clear?
8) How can trustees better understand the financial situation at your institution?

Regular Board Meetings

If a retreat cannot be arranged, it is recommended that the slide show be shown in its entirety as a general information presentation at a regular board meeting. There should be adequate time scheduled after the presentation for viewers to ask questions.

New Trustee Orientation

This presentation can be shown expressly for new trustees or new finance and budget committee members. It is suggested that an experienced board member and chief business officer be present to answer any questions and to help explain how your institution's financial reporting system works. This would be a good opportunity to discuss the board's role in setting financial policy.

Additional Resources

While the slide presentation can stand on its own, *Financial Responsibilities of Governing Boards* will provide the viewer with a useful reference manual. The monograph can be used effectively both before and after the presentation of the slide show.

A quick reading *prior to* the presentation will help provide the viewer with a framework for the subject matter. Many of the illustrative charts in the slide show can be explored in greater detail by locating them in the monograph *after* the slide show. In addition, there are a number of important chapters and charts in this publication (that are not covered in the slide presentation) which will address additional questions that the viewers may have.

It may also be appropriate to review copies of the audit report or other institutional financial statements after the presentation and respond to questions which board members have on these financial reports. AGB welcomes suggestions from users on other creative uses of the slide show which may be shared with other institutions.

Required Equipment and Related Considerations

- Kodak Carousel Slide Projector (request high-quality sharp lens—if available)
- Cassette tape programer/player to handle 1000 HZ sound track tape. (Quality speaker system)
- Large projection screen, i.e., 6x6 feet
- Extension cords as needed

Considerations:

Room should be as dark as possible since some illustrations are rather detailed.

Chairs should be situated close to the screen. Check to see that there are no obstructions in the way.

Check to see that sound quality is good.

If cassette tape programmer/player cannot handle sound track tape you can use other side of tape which requires manual slide operation.

For best results, it is recommended that an experienced audio-visual technician set up and operate presentation. If you must show this yourself and you are unfamiliar with the above equipment, the following steps are presented.

To operate:

1. Place slide tray in projector.
2. Place audio cassette sound-track tape in recorder and hook up to projector.
3. Turn on projector and advance to Focus Slide. After focus is complete, manually advance to next slide which should be dark (blank).
4. Turn on tape recorder/programer and presentation will start and slides should advance automatically.
5. If slides do not advance automatically check out tape recorder/programer then rewind tape before trying again.
6. (Check all connections) If slides still do not advance automatically take tape and replace it in recorder on opposite side (side 2). Rewind tape to beginning. Start tape and manually advance slides each time you hear audible tone.
7. If rented, return slide tray and cassette tape along with this user's guide as quickly as possible to AGB.

Script

□ In an era marked by innumerable financial pressures, □ many colleges and universities have seen a position of apparent security deteriorate into a struggle for financial survival. □

Today, with the flow of incoming funds slowing and costs escalating, sound financial policies, wise allocation of funds, perceptive monitoring of expenditures, □ and timely resolution of financial hitches are critical to the continued health of an institution.

Such matters □ are the responsibility of the Governing Board.

Board members know this. □ They also know that the nature of the institution they serve, the legal requirements of its Board, and the Board's governance style □ help determine the amount and type of information a Board gets as well as the nature of analysis required. □

Still, many trustees and regents complain of too much . . . too little . . . or irrelevant financial data. □

More significantly, others say they are puzzled by it . . . have difficulty interpreting it. Thus, □ they feel severely hampered in exercising this aspect of their stewardship . . . an aspect that now, more than ever, demands attention. □

TITLE SLIDE: "Understanding the Process—Financial Responsibilities of Governing Boards" □

It is a simple fact □ that Governing Boards must have access to financial information which relates clearly to the content and execution of institutional programs. □ Recognition of this simple fact has produced . . . at some institutions . . . reporting systems which meet the needs of the Board. Elsewhere, however, Board information needs may be ignored for a variety of reasons: □

Visuals: building slides

1) Board members not asking financial questions of administrators: fear of revealing lack of experience □
2) Business officers not offering certain kinds of data: fear of Board members meddling in administrative affairs □
3) Board members not wishing to add to the burdens of financial administrators □

Teamwork is the key to overcoming these obstacles and developing a system of financial communication responsive to the needs of the Board. □ A special monograph, entitled *Financial Responsibilities of Governing Boards of Colleges and Universities*, addresses these needs and is the source of several concepts and charts in this filmstrip. □ As a whole, however, the presentation will explore the nature of the flow of funds within an institution. □

Financial communication . . . in the form of a report or system of reports . . . must allow the Board to monitor and control such a flow . . . which is continuous and disregards the fiscal year . . . in order to best support the programs and services it has approved. □

It should be noted that the fiscal year is only a convenient packaging of the period of the flow. A year end report, on the other hand, is a financial snapshot of a moment in time. □

Within this continuing flow, currents, sub-flows, and reservoirs exist. There are also measurement and decision points that, like indicating meters and valves, must be periodically read and adjusted. But basically, the flow moves through five major zones: □

Depict visually:

1) acquisition
2) allocation □

ge nos. correspond to those in *Finan-*
l Responsibilities of Governing Boards
Colleges and Universities.

□ Indicates slide changes

3) operation expenditures (current fund)
4) plant expenditure (plant fund) □
5) endowment and similar funds □

And each of these zones has its own characteristic requirements for Board policy guidance, information, analysis, and decision while the flow continues. □ The first of the zone . . . *Acquisition* . . . has six sub-flows:

Depict visually:

1) Student tuition and fees
2) Sales and services
3) Appropriations
4) Grants and contracts
5) Gifts
6) Endowments

Within this zone of the flow . . . or anywhere in the overall flow, for that matter . . . trustees should be aware of certain things: □ the number of dollars in the sub-flow from each source . . . □ whether or not the funds are restricted . . . whether or not there are enough unrestricted dollars to afford needed flexibility . . . □ the impact of each sub-flow with regard to cause and effect in the total flow . . . □ conditions and factors affecting them . . . □ possible modification of policy to enhance or develop a more beneficial mix of flows . . . □ The *tuition and fee sub-flow* offers an interesting example of why Boards must understand the ramifications of their actions. Certainly Boards want to keep tuition down. They also want a balanced budget. □

But to simply raise tuition to achieve that, without knowing the financial interactions between the basic tuition rate and various forms of student aid which affect net tuition could present problems. □

What offsetting costs in increased student aid will be incurred? □

What is the net increase in average tuition per student? It is all related and must be considered. □

There are non-financial items of importance with regard to the tuition sub-flow also.

This graphic (p. 23) report is on student application and enrollment . . . what effect will the tuition raise have on this pattern? □ And this one (p. 73) shows future admission plans for an institution . . . are they realistic in view of increased tuition?

The point is that pertinent information reports can be developed to fit each sub-flow and source in the *acquisition* zone. They must be accurate and flexible. □ And, while only tuition and fees have been discussed here, examples for gifts (p. 75) and for endowments (p. 74); □ Building slides: discussion questions for *acquisition* □

1) How does the cost of total attendance at your institution compare with the cost of peer institutions? □
2) What is the composition of the institution's financial aid by source and type (grant, loan, employment)?
3) What is the overall strategy for raising revenues from private sources? □
4) How do the institution's fund raising activities compare with those of peer institutions?
5) Does the institution have investment policies that cover all of its financial resources? □

The *allocation* zone.

Assuming that the decisions of the Governing Board as to policy and action have enhanced the acquisition flow with regard to quantity and quality . . . □ the next task is to allocate these funds according to the priorities perceived by the Board.

Such allocation action is continuous. □ It is also, probably, the *single most important zone of financial decision* in which the Board has the ultimate responsibility

Important as it is, however, this allocation process is obscured by traditional financial reporting □ because restricted income is automatically allocated to uses like current scholarships, plant construction, and endowment. Board action is confined to accepting or rejecting the restrictions . . . and the funds. □

Also, all unrestricted funds are commonly received into the current fund and expended against current operations. Whatever is left is usually made available for transfer □ to plant, endowment, or other forward looking purposes. The consequence of reporting all unrestricted income through the current fund is that it implies a priority for current operations with only "the remainder" available to strengthen future institutional needs. □

Unfortunately, many, if not most, Boards accept this tradition without comment. But, if fund allocation is to be in line with longer term priorities . . . a better word might be survival . . . □ it may well be that a crumbling physical plant deserves a priority allocation at the expense of temporary pressure exerted on current operations. □

The vital point is that Governing Boards clearly recognize their power of allocation in terms of unrestricted revenue and use this power to make allocations in line with their priorities. □ They must not let traditional reporting through the current fund obscure a fundamental allocation responsibility.

Boards, of course, can re-allocate *unrestricted* funds from one area to another. □

Current funds may be allocated to the Plant Fund. They can, however, be shifted back to Current Funds if the Board sees fit. By the same token, under certain circumstances, □ Board designated Endowment could be moved to the Current or

Plant Fund. The key is knowing which levers to press . . . when to press them . . . and what will happen when they are pressed. ☐ Building slides: discussion questions for *allocation.*

1) Is the Board's review and approval process concerning budget allocations carried out carefully enough to ensure a defensible budget? ☐
2) Are the institution's fiscal plans and budgets related to the institution's mission statement? Its master plan? Its long range plans? ☐
3) Does the Board get "yardstick" information . . . historic comparisons, inflation factors, certain cost comparisons with peer institutions . . . by which to judge expenditures? ☐

From *allocation* we move to *Operations Expenditures (the Current Fund).* Requirements for current operations are drawn from the current fund and projected through the operating budget . . . which should relate to long term plans. ☐ Actual expenditures are reported in the Operating Report and Subsidiary Reports.

A statement of Operations and Variance (p. 79) is on the screen now. ☐ Most Boards receive something similar to this which informs them about how results compare to the budget . . . plans, that is . . . and why there may be major discrepancies. ☐

The different version (p. 85) is designed to show expenditures by operational centers and restriction qualification of funds employed. These reports . . . and various Subsidiary Reports . . . are set up to allow a Governing Board to . . . ☐ *review the institution's financial operations* with regard to how much is being spent for current operations, and for what . . . *present variance from actual to planned budget* and identify significant discrepancies for analysis and investigation . . .

. . . *assure* itself *that the budget is being followed.*

Of course, other report formats and financial data can contribute to a more complete understanding of expenditure trends . . . ☐

Visual: *word slide*

1) Comparison with prior years to determine good or bad changes
2) percentage analysis to analyze changing mix of expenditures
3) analysis by responsibility center; helps identify individual or department having management responsibility

. . . and all can be utilized for advising Boards on actual performance. ☐ Notice the type of aggregations (p. 72). Here, budget figures may be laid out in detail functions or subfunctions—individual department management responsibility. Obviously, Boards will have different requirements regarding the aggregation of information, but note how the budget relates to the long range plan, a plan which demands the kind of data found in the following reports . . . ☐ (show visuals of reports: p. 73, 74, 75).

These are, perhaps, most instructive in terms of depicting the integrated planning and budget functions Boards must deal with.

After all, the long range plan provides the Board with information which will assist it in evaluating the overall feasibility . . . financially . . . of reaching its stated goals . . . ☐ information with which to evaluate its stated *financial* policy as it relates to approved policies . . . guidance on financially related responsibilities aiding in the attainment of these resources or financial results . . . and a solid framework within which future decisions can be made . . . and today's decisions reviewed. ☐

In a very real sense, then, in this context, the operating budget is a sign off for trustees. It provides them the chance to review policies and procedures which will prompt or affect acquisition and to approve the allocation of financial resources obtained in this way as well as determine if proposed revenue and expenditures are compatible with the long range plan.

From this data, from its presentation and discussion, ☐ the Board should be able to gain an understanding not only of the internal and external factors affecting revenue and expenditures, ☐ but of the relationship of the budget to assumptions made by the institution . . . ☐ of contemporary expenditure trends as against historical actuals . . . and, finally, of the method of projecting anticipated expenditures. ☐

From all of this comes a fuller comprehension of the total budget . . . what it means . . . and how it was arrived at. ☐

Building slides: *related questions*

1) Has the Board adopted *policies and guidelines* that will regularly assure all concerned that the funds made available are managed wisely and spent prudently? ☐
2) Has the Board established a *policy* of having existing programs critically examined for purpose, substance, and priority? ☐
3) To what extent has the institution's financial strategy been articulated and justified by the administration? ☐

The next zone is *Plant Expenditures* . . . or those expenditures for all plant purposes. The dominant figure in the Plant Fund "reservoir" usually is the recorded investment in land, buildings, and associated equipment. ☐ Figures seen here (p. 48, 49) speak of the original cost or the value of fixed assets at the time of acquisition. They have little relevance to current value or replacement costs but are, nonetheless, convenient carrying figures.

□ Be aware, however, that these figures represent time of acquisition values and no depreciation is taken. Consequently, plant investment figures become little more than a record of past application of funds. □

Within the area known as the *Plant Fund,* there are three general components which demand constant Board action because they are relatively liquid. □ The first is establishing reserves for major plant rehabilitation or repairs by the transfer of funds from operating surpluses. The second is setting aside and including in the Plant Fund reserves for the retirement of the plant debt. And third is the unexpended fund balance . . . for building construction or equipment purchase. □

Building slides: discussion questions on *Plant Expenditures*

1) To what extent has maintenance been deferred?
2) What criteria are used for budgeting maintenance expenditures?
3) Does the Board make decisions on details related to buildings and grounds that should be delegated to administrative staff? □

Endowments:

There are two major groupings here . . . with each one having sub-components. □

The first is the restricted endowment in which the donor specifies that resources contributed be held for a given period . . . or forever . . . in the endowment with the income □ to be used for general institutional purposes. A further restriction can state that the income be used for a particular purpose . . . like scholarships or support of a professorship. □

The second is the Board designated or "quasi-endowment." This sees the Board itself set aside unrestricted funds for endowment purposes. If necessary, these used for something which may take precedence. □

Here, the Board's need to achieve a balance between obligations to both present and future comes into sharp focus. □

The larger the endowment, the stronger the institution will be tomorrow in terms of viability, stability, and independence. But, inadequate support of today's program can undermine them and jeopardize the future health and prospects of the institution. □

Clearly, Boards need a guiding policy in this pivotal area. To assist in the formulation of such a policy, the Board must periodically receive data which includes . . . □ comparisons with endowments at similar institutions . . . endowment per student—with trends and comparisons with the ratio of similar institutions . . . decay or improvement change in actual purchasing power of endowment . . . and the impact of endowment growth or decrease on student tuition and fees—the availability of endowment "subsidy." □

In exercising management stewardship over endowments, the Board must be sure that restrictions are observed and guaranteed and are in compliance with government regulations. □ It must carefully watch the returns on investment, understanding the strengths and weaknesses of investment policies and, from this, it must determine the investment policy best for the institution. □ (p. 81)

Building slides: discussion questions on *Endowment*

1) How has the growth in endowment capital kept pace with inflation?
2) Who should be responsible for the management and protection of endowment and similar funds?
   —the Board itself
   —a committee
   —internal or external investment

By now, if there is a sense of continuous flow . . . and of reservoirs along the way . . . the basis of a troublesome concept called fund accounting can be seen. □ The "fund" is simply a conceptual reservoir of monies moving toward a like, designated purpose. It enables Boards to certify their stewardship and ensure that monies received are indeed used for their stipulated purpose. □ The fund reports (p. 48, 49) show the activity in each "reservoir" . . . money in, money out, money remaining.

Here, □ (p. 86) can be seen the trend through the years. □

And here, (p. 84) is the summary of all fund balances—the net worth of the institution. □

This presentation has offered a framework which we call a flow of funds model. It illustrates how financial reports can provide Boards with the type of information they need to make responsible financial decisions at key points in the flow. □

It may be frustrating that a more prescriptive approach was not taken, but it was not taken because we believe that no one system can serve all Boards. □ We also believe that an improved method of financial communication can be obtained by repackaging a current system . . . and not by collecting a great deal of additional data. □

Still, the potential of expending funds to improve the present system must not deter Board members from letting their administrators know what kinds of information they need and how this information should be organized. □ Perhaps the best way to begin this exercise is to ask trustees to participate in a self-assessment program □ designed to pinpoint missing links in the financial reporting chain.

Begin with the following:

Building slides: ☐

Trustee Audit of Financial Responsibilities of Governing Boards ☐

1) Does the Board fully accept its responsibility for prudent fiscal management? ☐
2) Is your Board organized in such a way—i.e., finance committee, executive committee, etc.—that it can best meet the needs of the financial matters of the institution? ☐
3) Are the institution's financial statements intelligible?
4) Are financial reports distributed in a timely fashion? ☐
5) Does the institution's financial reporting system need evaluation?
6) If so, by whom? ☐
7) Is the concept of "fund-accounting" clear?
8) How can trustees better understand the financial situation at your institution? ☐